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C O N F I D E N T I A L SECTION 01 OF 02 MADRID 000520

SIPDIS

FOR EB/ODF, EB/IRAQ, EUR/WE

E.O. 12958: DECL: 02/13/2014

TAGS: [EAID](#) [ECON](#) [EFIN](#) [IZ](#) [SP](#)

SUBJECT: ENCOURAGING SPAIN TO PURSUE BUSINESS IN IRAQ

REF: PRAGUE 145

Classified By: Economic Counselor Judy Garber; Reasons 4 (b) and (d).

1. (C) Summary. With continued "bad press" over the lack of Iraq reconstruction-related contracts for Spanish firms, we met with Ministry of Economy's Director General for Commercial Policy Carlos Jimenez to share lessons learned reftel. Our overtures were welcome, but we also received a clear message that no GOS official would be willing engage publicly on any aspect of Iraq reconstruction prior to March 14 elections. Jimenez noted Spanish companies no longer believe they will receive a fair shake in the process and are instead waiting for the introduction of bilateral credits sometime in 2005. He also complained about delays in the signing of the contract for the production of the next tranche of Iraqi dinars. We plan to continue to engage Jimenez and others on these issues to demonstrate our transparency and good will in this process but are anticipating little return on our efforts until after the elections. End Summary.

The Frustration Continues

2. (SBU) We met February 12 with Jimenez, to share the positive experience of the recent Czech business delegation to Iraq (reftel) and encourage the Spanish to consider a similar trip to help their companies better compete for Iraq reconstruction contracts. We also shared some of the "lessons learned" from the Czech experience and offered to work with the GOS and the Coalition Provisional Authority (CPA) to help set up a Spanish delegation visit.

3. (C) Jimenez appreciated the suggestion. He made clear, however, that the Ministry of Economy's efforts in Iraq are somewhat on hold until after the March 14 general elections. Senior GOS officials believe, Jimenez explained, that it would be extremely damaging to the governing Popular Party's efforts to win, particularly with an absolute majority, if there were any injuries or deaths of Spanish nationals during the electoral period. The fewer Spaniards in Iraq on official business, the better. For example, Spain's Counselor for Commercial Affairs still operates out of Madrid.

4. (C) Jimenez added that other factors are also in play. One is the bitterness that has settled into the business and government sectors regarding Spanish companies' lack of success in obtaining contracts. Although Spain is very happy that two of its construction companies, Dragados and Soluziona, teamed with CH2MHill to win the \$12 million Army Corps of Engineers contract to build an electric plant in northern Iraq, many still resent the loss of a recent CPA contract to equip the Iraqi Armed Forces (note: the U.S. Nour Group won). The Ministry of Defense had coordinated the bid by about 30 Spanish companies, and strongly believed the bid met perfectly the requirements of the RFP and offered a reasonable price. According to Jimenez, State Secretary for Defense (and Commissioner for Iraq) Diez Moreno is still angry about the loss, particularly because he felt that the RFP had been somewhat amended later in the process to favor the American company. He has reportedly sent a letter to DOD Comptroller Dov Zakheim on this issue (we have requested a copy). Jimenez said that since most of the "real" money for Iraq is coming out of the U.S., Spanish companies believe the best way to get on board is to partner with U.S. companies and to lobby in Washington. Some GOS officials believe that the CPA is already transforming into the future U.S. Embassy in Baghdad and are therefore less tuned in to third-party interests. Finally, Jimenez pointed out that while the GOS will distribute some of its Madrid pledge this fiscal year, the GOS has not budgeted for Hispano-Iraqi business credits until 2005, when the GOS hopes to negotiate an agreement with a sovereign government.

The Dinar Contract - Again

5. (C) Conversation turned to the visit CPA's Tom Foley offered to make to Madrid this month to explain to Spanish companies how to take advantage of commercial opportunities in Iraq. Jimenez said that while the Minister of Foreign Affairs had requested the visit, First Vice President and Minister of Economy Rato later decided that the visit should not happen in the run-up to the March election.

16. (C) Additionally, Jimenez related Economy Ministry frustration over a pending contract for Spanish companies to produce additional Iraqi Dinars. According to Jimenez, CPA had requested the contract on an urgent basis, but after the Spanish sent a draft 2-3 weeks ago, nothing happened. Ministry of Economy official Carlos Molina plans to return to Iraq with a new contract to try to get the ball rolling again. (Note: Another GOS official speculated that CPA may be requiring some formal signal of GOS approval before signing the contract. He assured us the GOS is fully on board to fund. End note.)

Comment

17. (C) While there are numerous reasons for Spanish companies' failure to get contracts in Iraq, including security concerns and Spanish uncertainty over how to pursue contracts, the bottom line is that both business and government are extremely sensitive on this issue. Press reports add fuel to the fire. An illustrative headline is one that appeared in the February 6 El Pais daily, "The U.S. leaves Spain out of the big contract to supply the Iraqi Army."

18. (C) It is clear that the current Administration has decided not to pursue at this time any commercial initiatives that involve travel to Iraq or meeting with CPA officials to discuss contracting issues. After the March elections, we will revisit with Ministry of Economy contacts the option of a GOS-led business delegation visit to Baghdad.
MANZANARES